

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>CHARTER TOWNSHIP OF AUSABLE</b>	County <b>IOSCO</b>
Audit Date <b>12/31/2004</b>	Opinion Date <b>03/16/2005</b>	Date Accountant Report Submitted to State: <b>05/03/2005</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>STEPHENSON, GRACIK &amp; CO., P.C.</b>			
Street Address <b>325 NEWMAN STREET, PO BOX 592</b>	City <b>EAST TAWAS</b>	State <b>MI</b>	ZIP <b>48730</b>
Accountant Signature  <b>Donald W. Brannan CPA</b>		Digitally signed by Stephenson, Grack and Co., P.C. DN: cn=Stephenson, Grack and Co., P.C., c=US Date: 2005.02.14 14:30:02 -05'00'	



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

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CHARTER TOWNSHIP OF AUSABLE  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED DECEMBER 31, 2004

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# *Stephenson Gracik & Co., P.C.*

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Herman A Bertuleit, CPA

March 16, 2005

## Independent Auditors' Report

Members of the Township Board  
Charter Township of AuSable  
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of AuSable, Iosco County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Charter Township of AuSable's basic financial statements, as listed in the index. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of AuSable, Iosco County, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2005, on our consideration of the Charter Township of AuSable's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the Charter Township of AuSable has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of December 31, 2004.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Stephenson, Grunh & Co., P.C.*



# Charter Township of AuSable

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Charter Township of AuSable (the Township) financial performance provides an overview of the Township's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the Township's financial performance as a whole. This analysis, a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34), omits certain comparative data that will be available in future years.

### Financial Highlights

#### Financial Highlights

The Township's assets exceeded its liabilities by \$5,072,073. Business-type activities (Enterprise Funds) account for \$4,679,298 of this total.

The Township's total net assets increased by \$35,201.

The Township's governmental funds reported a combined ending fund balance of \$349,698 this year, a decrease of \$15,495. The entire amount is available for spending (*unreserved fund balance*) on behalf of its citizens. The General Fund 2004 fiscal year end fund balance is \$325,411. This reflects an increase of \$13,706 over fiscal year 2003.

The Township's total bonded indebtedness was reduced by \$156,052. No new debt was issued.

### Overview of the Financial Statements

The financial statements are organized so the reader can understand the Township as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Township's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

### Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the Township as a whole. These statements include the financial activities of the primary government except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or functions of the Township's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

With this report, capital assets are listed for the Charter Township of AuSable. These assets are comprised of buildings and improvements, machinery and equipment, distribution and collection system infrastructure, and land owned by the Township. These assets total \$2,549,359. The Township performed an inventory and evaluation of assets and categorized a depreciation schedule for assets not fully depreciated.

### **Fund Financial Statements**

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental, Proprietary and Fiduciary.*

#### ***Governmental Funds:***

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

- General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.
- Fire Fund – This fund accounts for the receipt and expenditure of property taxes for fire department activities.
- Police Fund – This fund accounts for the receipt and expenditure of liquor license fees and general fund appropriations for police department activities.

#### ***Proprietary Funds:***

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

***Proprietary Funds: (Continued)***

The Township's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the Township's major enterprise funds:

- Sewer Fund – This fund accounts for fees collected for sewer services provided by the Township.
- Water Fund – This fund accounts for fees collected for water services provided by the Township.

***Fiduciary Funds:*** Fiduciary fund reporting focuses on net assets and changes in net assets. The Township's agency funds account for assets held by the Township for political subdivisions in which the Township acts as the fiscal agent.

**Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided on the Township *government-wide* and *fund* financial statements. The notes to financial statements are presented in Exhibit K of this report.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules.

**Government-Wide Financial Analysis**

Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.

**Summary of Net Assets:**

The following summarizes the net assets of the Charter Township of AuSable at December 31, 2004:

**Net Assets Summary**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current Assets	\$ 871,272	\$ 1,502,880	\$ 2,374,152
Restricted Assets	0	125,089	125,089
Noncurrent Assets	<u>43,707</u>	<u>4,120,344</u>	<u>4,164,051</u>
Total Assets	<u>914,979</u>	<u>5,748,313</u>	<u>6,663,292</u>
Current Liabilities	521,574	154,791	676,365
Long-Term Liabilities	<u>0</u>	<u>914,224</u>	<u>914,224</u>
Total Liabilities	<u>521,574</u>	<u>1,069,015</u>	<u>1,590,589</u>



	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 43,707	\$ 2,259,652	\$ 2,303,359
Restricted	0	125,089	125,089
Unrestricted	<u>349,698</u>	<u>2,294,557</u>	<u>2,644,255</u>
Total Net Assets	<u>\$ 393,405</u>	<u>\$ 4,679,298</u>	<u>\$ 5,072,703</u>

#### Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for fiscal year 2004. Since this is the first year the Township has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Generally speaking, the Township's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The Charter Township of AuSable, through its governing body, i.e., township board, has taken a sensible approach vis-à-vis capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The Township Board has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the Township's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Program Revenues:			
Charges for Services	\$ 4,736	\$ 575,599	\$ 580,335
Operating Grants and Contributions	<u>10,442</u>	<u>0</u>	<u>10,442</u>
Total Program Revenues	<u>15,178</u>	<u>575,599</u>	<u>590,777</u>
Program Expenses:			
General Government	229,526	0	229,526
Public Safety	266,792	0	266,792
Public Works	73,926	0	73,926
Community and Economic Development	43,145	0	43,145
Recreation and Cultural	37,897	0	37,897
Sewer Services	0	130,974	130,974
Water Services	<u>0</u>	<u>451,413</u>	<u>451,413</u>
Total Program Expenses	<u>651,286</u>	<u>582,387</u>	<u>1,233,673</u>
Net Program Expenses	<u>(636,108)</u>	<u>(6,788)</u>	<u>(642,896)</u>

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
General Revenues:			
Property Taxes	\$ 446,520	\$ 0	\$ 446,520
State Revenue Sharing	165,203	0	165,203
Rent Income	0	35,000	35,000
Investment Earnings and Miscellaneous	<u>7,538</u>	<u>23,836</u>	<u>31,374</u>
Total General Revenues	<u>619,261</u>	<u>58,836</u>	<u>678,097</u>
Change in Net Assets	<u>\$ (16,847)</u>	<u>\$ 52,048</u>	<u>\$ 35,201</u>

#### Governmental Activities

With GASB 34 implementation, this new component of reporting reflects the *Statement of Activities* and illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$15,178 from *Charges for Services and Operating Grants and Contributions*. The *Charges for Services* are fees for various licenses. While revenue collected is minimal, operating expenses totaled \$651,286 for these same activities. The largest expenses were incurred by General Government offices (\$229,526) and Public Safety (\$266,792).

#### Business-Type Activities

Charter Township of AuSable's *Business-Type activities* are limited to the Sewer and Water Funds.

### Financial Analysis of Township Funds

As noted earlier in this report, the Township uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

#### Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue; 2) Fire Fund – accounts for the receipt and expenditure of property taxes for fire department activities; 3) Police Fund – accounts for the receipt and expenditure of liquor license fees and general fund appropriations for police department activities.

This year's Township audit, following GASB 34 format, shows four governmental funds. These funds are maintained by the Township as separate units in the general ledger.

## Enterprise Funds

The Township's enterprise funds provide the same type of information found in the government-wide financial statements. Commonly, the sewer and water departments comprise these funds. GASB 34 places such funds under the caption of *Propriety Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc. More specific detail is seen in Exhibits G, H, and I.

## Budgetary Highlights

### General Fund Budgetary Highlights

The Township's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended December 31, 2004 the Township Board amended the budget to take into account events occurring during the year. These budget amendments fall into two categories:

- Changes made to reflect increases or decreases in anticipated expenditures
- Changes made to reflect increases or decreases in anticipated revenues

The General Fund actual revenue was \$578,700. That amount is below both the original and final amended budget estimates of \$584,800. The variance between the actual revenues, the original budget and the final budget was the result of decreased revenues from licenses and permits.

The actual expenditures of the General Fund were \$345,432, which is below both the original budget estimates of \$369,440 and the final amended budget estimates of \$413,280. The variance between the actual expenditures, the original budget and the final budget was due to decreased spending in various areas.

The General Fund had total revenues of \$578,700 and total expenditures of \$345,432.

Operating transfers out of \$219,562 include \$181,852 to the Police Fund and \$37,710 to the Street Lighting Fund.

This results in an ending fund balance of \$325,411.

## Capital Asset and Debt Administration

### Capital Assets

Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The Township's infrastructure consists of water and sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

### Capital Assets (Continued)

Capital Assets – Government al Activities beginning and ending balance was \$90,065. Governmental Activities Total Capital Assets – Net of Depreciation was \$43,707.

Capital Assets - Business Type Activities beginning balance was \$4,003,272 with an ending balance of \$4,016,721. Business-Type Activities Total Capital Assets – Net of Depreciation was \$2,505,652. An expanded and detailed presentation may be seen in Note 8 of the audit, notes to financial statements .

### Long-Term Debt

At year's end, long-term debt (due in more than one year) amounted to \$914,224. Such debt includes *Contracts Payable and General Obligation Bonds Payable*.

### Economic Factors and Next Year's Budget and Rates

The Township Board and management staff are working diligently to keep expenditures down and to maintain revenue levels that are within their control. Property taxes account for over two thirds of the Township's General Fund revenues .

Revenue sharing from the State of Michigan is the next largest revenue source for the Township and this source is beyond the control of the Township. As revenue estimates for the State continue to decline, the Township may receive less funds than are currently budgeted. The Township's General Fund realized a 4% increase in fund balance in 2004 and these funds will be used to cover any shortfall in revenues.

The most significant expense remains employee related costs. Following are contracted and professional services, insurance and utilities. The remaining portion of the budget is comprised of operating expenses such as supplies, services, maintenance, and capital improvements.

The Township Board and staff will continue to monitor revenues and expenditures and take appropriate action to account for changes in economic factors.

### Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Charter Township of AuSable located at 311 Fifth Street, AuSable, Michigan 48750.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

STATEMENT OF NET ASSETS  
December 31, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 337,788	\$ 1,028,617	\$ 1,366,405
Investments (Note 3)	0	304,441	304,441
Receivables:			
Taxes	514,451	0	514,451
Special assessments	0	92,576	92,576
Accounts	910	58,304	59,214
Due from local units	0	1,010	1,010
Due from fiduciary funds (Note 5)	4,728	1,286	6,014
Internal balances	13,395	(13,395)	0
Inventory	0	30,041	30,041
Total current assets	<u>871,272</u>	<u>1,502,880</u>	<u>2,374,152</u>
Restricted assets:			
Cash and cash equivalents (Note 3)	<u>0</u>	<u>125,089</u>	<u>125,089</u>
Noncurrent assets:			
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,614,692	1,614,692
Capital assets, net (Note 8)	<u>43,707</u>	<u>2,505,652</u>	<u>2,549,359</u>
Total noncurrent assets	<u>43,707</u>	<u>4,120,344</u>	<u>4,164,051</u>
Total Assets	<u>914,979</u>	<u>5,748,313</u>	<u>6,663,292</u>
<u>Liabilities</u>			
Accounts payable	8,777	5,126	13,903
Deposits payable	0	1,513	1,513
Accrued interest	0	11,849	11,849
Accrued liabilities	3,057	1,364	4,421
Due to local units	0	2,179	2,179
Due to fiduciary funds (Note 5)	14	0	14
Deferred revenue	509,726	0	509,726
Long-term liabilities:			
Due within one year (Note 9)	0	132,760	132,760
Due in more than one year (Note 9)	<u>0</u>	<u>914,224</u>	<u>914,224</u>
Total Liabilities	<u>521,574</u>	<u>1,069,015</u>	<u>1,590,589</u>
<u>Net Assets</u>			
Investment in capital assets, net of related debt	43,707	2,259,652	2,303,359
Restricted (Note 1)	0	125,089	125,089
Unrestricted	<u>349,698</u>	<u>2,294,557</u>	<u>2,644,255</u>
Total Net Assets	<u>\$ 393,405</u>	<u>\$ 4,679,298</u>	<u>\$ 5,072,703</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2004

Function/Program	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>						
Governmental activities:						
General government	\$ 229,526	\$ 4,736	\$ 0	\$ (224,790)	\$ 0	\$ (224,790)
Public safety	266,792	0	3,511	(263,281)	0	(263,281)
Public works	73,926	0	6,931	(66,995)	0	(66,995)
Community and economic development	43,145	0	0	(43,145)	0	(43,145)
Recreation and cultural	37,897	0	0	(37,897)	0	(37,897)
Total governmental activities	651,286	4,736	10,442	(636,108)	0	(636,108)
Business-type activities:						
Sewer services	130,974	101,102	0	0	(29,872)	(29,872)
Water services	451,413	474,497	0	0	23,084	23,084
Total business-type activities	582,387	575,599	0	0	(6,788)	(6,788)
Total primary government	\$ 1,233,673	\$ 580,335	\$ 10,442	(636,108)	(6,788)	(642,896)
<b>General Revenues:</b>						
Property taxes levied for:						
General operating				394,585	0	394,585
Public safety				51,935	0	51,935
State revenue sharing				165,203	0	165,203
Rent income				0	35,000	35,000
Interest and investment earnings				4,688	23,836	28,524
Other				2,850	0	2,850
Total general revenues				619,261	58,836	678,097
Change in net assets				(16,847)	52,048	35,201
Net assets - beginning of year, as restated (Note 2)				410,252	4,627,250	5,037,502
Net assets - end of year				\$ 393,405	\$ 4,679,298	\$ 5,072,703

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
December 31, 2004

	General	Fire Fund	Police Fund	Other Governmental Funds Street Lighting Fund	Total Governmental Funds
<u>ASSETS</u>					
Cash and cash equivalents (Note 3)	\$ 314,076	\$ 6,260	\$ 16,274	\$ 1,178	\$ 337,788
Receivables:					
Taxes	414,354	100,097	0	0	514,451
Accounts	910	0	0	0	910
Due from other funds (Note 5)	<u>22,341</u>	<u>88</u>	<u>0</u>	<u>3,235</u>	<u>25,664</u>
Total Assets	<u>\$ 751,681</u>	<u>\$ 106,445</u>	<u>\$ 16,274</u>	<u>\$ 4,413</u>	<u>\$ 878,813</u>
<u>LIABILITIES AND FUND EQUITY</u>					
Liabilities:					
Accounts payable	\$ 5,542	\$ 0	\$ 0	\$ 3,235	\$ 8,777
Accrued liabilities	3,057	0	0	0	3,057
Due to other funds (Note 5)	7,542	13	0	0	7,555
Deferred revenue	<u>410,129</u>	<u>99,597</u>	<u>0</u>	<u>0</u>	<u>509,726</u>
Total liabilities	<u>426,270</u>	<u>99,610</u>	<u>0</u>	<u>3,235</u>	<u>529,115</u>
<u>Fund Equity</u>					
Fund balances:					
Unreserved, reported in:					
General Fund	325,411	0	0	0	325,411
Special revenue funds	<u>0</u>	<u>6,835</u>	<u>16,274</u>	<u>1,178</u>	<u>24,287</u>
Total fund equity	<u>325,411</u>	<u>6,835</u>	<u>16,274</u>	<u>1,178</u>	<u>349,698</u>
Total Liabilities and Fund Equity	<u>\$ 751,681</u>	<u>\$ 106,445</u>	<u>\$ 16,274</u>	<u>\$ 4,413</u>	<u>\$ 878,813</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
December 31, 2004

Total governmental fund balances:		\$	349,698
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:			
Capital asset cost	\$	90,065	
Capital asset accumulated depreciation		<u>(46,358)</u>	
			<u>43,707</u>
Total net assets - governmental activities		\$	<u>393,405</u>

The accompanying notes to financial statements are an integral part of this statement.



CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2004

	General	Fire Fund	Police Fund	Other Governmental Funds Street Lighting Fund	Total Governmental Funds
<u>Revenue</u>					
Current property taxes	\$ 394,585	\$ 51,935	\$ 0	\$ 0	\$ 446,520
State grants and revenue	172,134	0	3,511	0	175,645
Charges for services	370	0	0	0	370
Licenses and permits	4,366	0	0	0	4,366
Interest and rentals	4,395	241	49	3	4,688
Other revenue	2,850	0	0	0	2,850
Total revenue	<u>578,700</u>	<u>52,176</u>	<u>3,560</u>	<u>3</u>	<u>634,439</u>
<u>Expenditures</u>					
Current:					
General government	229,526	0	0	0	229,526
Public safety	0	84,940	181,852	0	266,792
Public works	36,216	0	0	37,710	73,926
Community and economic development	43,145	0	0	0	43,145
Recreation and cultural	36,545	0	0	0	36,545
Total expenditures	<u>345,432</u>	<u>84,940</u>	<u>181,852</u>	<u>37,710</u>	<u>649,934</u>
Excess of revenue over (under) expenditures	<u>233,268</u>	<u>(32,764)</u>	<u>(178,292)</u>	<u>(37,707)</u>	<u>(15,495)</u>
Other Financing Sources (Uses):					
Operating transfers in	0	0	181,852	37,710	219,562
Operating transfers out	<u>(219,562)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(219,562)</u>
Total other financing sources (uses)	<u>(219,562)</u>	<u>0</u>	<u>181,852</u>	<u>37,710</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures and other uses	13,706	(32,764)	3,560	3	(15,495)
Fund balances - beginning of year	<u>311,705</u>	<u>39,599</u>	<u>12,714</u>	<u>1,175</u>	<u>365,193</u>
Fund balances - end of year	<u>\$ 325,411</u>	<u>\$ 6,835</u>	<u>\$ 16,274</u>	<u>\$ 1,178</u>	<u>\$ 349,698</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2004

Total net change in fund balances - governmental funds	\$ (15,495)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Current year depreciation expense	<u>(1,352)</u>
Change in net assets of governmental activities	<u>\$ (16,847)</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
December 31, 2004

	Enterprise Funds		
	Major Funds		
	Sewer Fund	Water Fund	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 652,926	\$ 375,691	\$ 1,028,617
Investments (Note 3)	0	304,441	304,441
Receivables:			
Special assessments	0	92,576	92,576
Accounts	15,949	42,355	58,304
Due from local units	1,010	0	1,010
Due from other funds (Note 5)	100,803	24,419	125,222
Inventory	0	30,041	30,041
Total current assets	<u>770,688</u>	<u>869,523</u>	<u>1,640,211</u>
Restricted assets:			
Cash and cash equivalents (Note 3)	<u>17,659</u>	<u>107,430</u>	<u>125,089</u>
Noncurrent assets:			
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,614,692	1,614,692
Capital assets, net (Note 8)	<u>1,037,003</u>	<u>1,468,649</u>	<u>2,505,652</u>
Total noncurrent assets	<u>1,037,003</u>	<u>3,083,341</u>	<u>4,120,344</u>
Total Assets	<u>1,825,350</u>	<u>4,060,294</u>	<u>5,885,644</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	5,126	0	5,126
Deposits payable	0	1,513	1,513
Accrued interest	0	11,849	11,849
Accrued liabilities	0	1,364	1,364
Due to local units	0	2,179	2,179
Due to other funds (Note 5)	22,193	115,138	137,331
Contracts payable, current (Note 9)	0	112,760	112,760
General obligation bonds payable, current (Note 9)	0	20,000	20,000
Total current liabilities	<u>27,319</u>	<u>264,803</u>	<u>292,122</u>
Noncurrent liabilities:			
Contracts payable (Note 9)	0	688,224	688,224
General obligation bonds payable (Note 9)	0	226,000	226,000
Total noncurrent liabilities	<u>0</u>	<u>914,224</u>	<u>914,224</u>
Total Liabilities	<u>27,319</u>	<u>1,179,027</u>	<u>1,206,346</u>
<u>Net Assets</u>			
Investment in capital assets, net of related debt	1,037,003	1,222,649	2,259,652
Restricted (Note 1)	17,659	107,430	125,089
Unrestricted	<u>743,369</u>	<u>1,551,188</u>	<u>2,294,557</u>
Total Net Assets	<u>\$ 1,798,031</u>	<u>\$ 2,881,267</u>	<u>\$ 4,679,298</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS

For the Year Ended December 31, 2004

	Enterprise Funds		
	Major Funds		
	Sewer Fund	Water Fund	Total
<u>Operating Revenue</u>			
Charges for services	\$ 101,102	\$ 474,497	\$ 575,599
Hydrant rental	0	35,000	35,000
Total operating revenue	<u>101,102</u>	<u>509,497</u>	<u>610,599</u>
<u>Operating Expenses</u>			
Salaries	11,307	48,444	59,751
Payroll taxes and employee benefits	5,633	24,028	29,661
Office and operating supplies	5,025	20,971	25,996
Water and sewer	65,884	38,100	103,984
Contractual services	3,170	175,249	178,419
Vehicle expense	775	3,301	4,076
Depreciation	39,180	80,317	119,497
Total operating expenses	<u>130,974</u>	<u>390,410</u>	<u>521,384</u>
Operating income (loss)	<u>(29,872)</u>	<u>119,087</u>	<u>89,215</u>
<u>Non-operating Revenue (Expenses)</u>			
Interest on special assessments and connections	0	7,254	7,254
Interest income	4,792	11,790	16,582
Interest expense and paying agent fees	0	(61,003)	(61,003)
Total non-operating revenue (expenses)	<u>4,792</u>	<u>(41,959)</u>	<u>(37,167)</u>
Change in net assets	(25,080)	77,128	52,048
Net assets - beginning of year, as restated (Note 2)	<u>1,823,111</u>	<u>2,804,139</u>	<u>4,627,250</u>
Net assets - end of year	<u>\$ 1,798,031</u>	<u>\$ 2,881,267</u>	<u>\$ 4,679,298</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
For the Year Ended December 31, 2004

	Enterprise Funds		
	Major Funds		
	Sewer Fund	Water Fund	Total
<u>Cash Flows From Operating Activities</u>			
Receipts from customers	\$ 100,943	\$ 506,689	\$ 607,632
Payments for operating expenses	(90,783)	(303,815)	(394,598)
Net cash provided by operating activities	10,160	202,874	213,034
<u>Cash Flows From Noncapital Financing Activities</u>			
Cash received from (paid to) other funds	141,152	(114,668)	26,484
<u>Cash Flows From Capital and Related Financing Activities</u>			
Cash received for special assessments	0	12,242	12,242
Interest received on special assessments and connections	0	7,254	7,254
Acquisition and construction of capital assets	0	(13,449)	(13,449)
Principal paid on long-term debt	0	(149,892)	(149,892)
Interest paid on long-term debt	0	(62,441)	(62,441)
Net cash used by capital and related financing activities	0	(206,286)	(206,286)
<u>Cash Flows From Investing Activities</u>			
Interest on investments	4,792	2,655	7,447
Net increase (decrease) in cash and cash equivalents	156,104	(115,425)	40,679
Cash and cash equivalents at beginning of year (Note 1)	514,481	598,546	1,113,027
Cash and cash equivalents at end of year (Note 1)	\$ 670,585	\$ 483,121	\$ 1,153,706
<u>Reconciliation of operating income (loss) to net cash provided by operating activities</u>			
Operating income (loss)	\$ (29,872)	\$ 119,087	\$ 89,215
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	39,180	80,317	119,497
Change in assets and liabilities:			
Accounts receivable, net	(159)	(2,808)	(2,967)
Inventory	0	5,098	5,098
Accounts payable	1,011	(1,190)	(179)
Accrued payroll taxes	0	191	191
Due to local units	0	2,179	2,179
Net cash provided by operating activities	\$ 10,160	\$ 202,874	\$ 213,034

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
December 31, 2004

	<u>Tax Account</u>	<u>Trust and Agency</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents (Note 3)	\$ 1,003,351	\$ 2,700	\$ 1,006,051
Due from other funds (Note 5)	<u>14</u>	<u>0</u>	<u>14</u>
Total Assets	<u>\$ 1,003,365</u>	<u>\$ 2,700</u>	<u>\$ 1,006,065</u>
<u>LIABILITIES</u>			
Due to state	\$ 163	\$ 0	\$ 163
Due to local units	47,942	0	47,942
Due to others	1,931	1,300	3,231
Due to other funds (Note 5)	4,614	1,400	6,014
Deferred revenue	<u>948,715</u>	<u>0</u>	<u>948,715</u>
Total Liabilities	<u>\$ 1,003,365</u>	<u>\$ 2,700</u>	<u>\$ 1,006,065</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Charter Township of AuSable have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Reporting Entity

The Charter Township of AuSable was organized in 1985 under the Charter Township Act of 1947. The Charter Township operates under an elected Board and provides services to its residents in many areas including law enforcement, fire protection, library, and water and sewer services. All activities over which the Township exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Joint Ventures

The Township has entered into several joint ventures with various municipalities described as follows:

1. AuSable Township Building Authority:

The Building Authority was established to provide for the acquisition and construction of certain public buildings, parking lots or structures, recreational facilities and the necessary sites therefore. Complete financial statements can be obtained from the AuSable Township Clerk's office.

2. AuSable-Oscoda Joint Industrial Park Fund:

The purpose of the Joint Industrial Park Fund is to promote, purchase and sell certain industrial properties known as the AuSable-Oscoda Industrial Park. All costs and expenses net of funds received from County, State and Federal Governments, and sale of lots are to be shared on an equal basis. The Township did not remit any funds to the Industrial Park for the year ended December 31, 2004. On dissolution of the Industrial Park, the net assets will be shared equally by the two Townships. Complete financial statements can be obtained from the AuSable Township Clerk's office.

3. Huron Shore Regional Utility Authority:

The Huron Shore Regional Utility Authority was established as a joint venture between the Charter Township of AuSable, City of East Tawas, City of Tawas City, Charter Township of Oscoda, Township of Alabaster, Township of Baldwin, all municipalities in Iosco County, and the Township of Greenbush in Alcona County. The Authority was established to acquire, own, improve, enlarge, extend and operate water supply and distribution systems and sewage disposal systems. The initial contract amount plus any adjustment for the Charter Township of AuSable's share of the contracts is recorded as Investment in Huron Shore Regional Utility Authority in the Water Fund of the Township because title to the water and sewer systems belongs to the Authority.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Joint Ventures (Continued)

3. Huron Shore Regional Utility Authority: (Continued)

The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the Township's share is 17.11% of the total bond issue of \$7,930,000 or \$1,356,823. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the Charter Township of AuSable is making payments through charges for services.

In 1995, the Township entered into a joint water and sewer system agreement for the purpose of constructing additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority Water and Sewer System No. 1, with the City of Tawas City, Charter Township of Oscoda and the Township of Baldwin. The most current estimate of the Township's share is 20.31% of the total bond issue of \$1,300,000 or \$264,030. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the Charter Township of AuSable is making payments through charges for services.

Each municipality makes an annual operation and maintenance contribution based on their proportionate share of the adopted annual budget. The Charter Township of AuSable's contribution for the year ended December 31, 2004 was \$156,050. The current value of the Charter Township of AuSable's investment in the Huron Shore Regional Utility Authority is \$1,614,692. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

4. Oscoda-Wurtsmith Airport Authority:

The Oscoda-Wurtsmith Airport Authority functions as a jointly governed organization between the County of Iosco, County of Alcona, Charter Township of Oscoda, Charter Township of AuSable and the Township of Greenbush. The Airport Authority was established to provide for planning, promoting, acquiring, constructing, improving, enlarging, extending, owning, maintaining and operating the landing, navigational and building facilities necessary thereto, at the former Wurtsmith Air Force Base, for the purpose of providing a Community Airport. The Charter Township of AuSable has no financial obligation to the Airport Authority. Complete financial statements can be obtained from the Airport Authority Manager's office at 3961 East Airport Drive, Oscoda, Michigan 48750.



CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Joint Ventures (Continued)

5. Wurtsmith Development Commission:

The Wurtsmith Development Commission functions as a jointly governed organization between the County of Iosco, County of Alcona, Charter Township of Oscoda, Charter Township of AuSable and the Township of Greenbush. The Wurtsmith Development Commission was established for the purpose of temporary caretaking of the former Wurtsmith Air Force Base. The Township of AuSable has no financial obligation to the Wurtsmith Development Commission. Complete financial statements can be obtained from the Development Commission's office located on the former Wurtsmith Air Force Base, Oscoda, Michigan 48750.

C. Basis of Presentation

The Township's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

**Fund Financial Statements**

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds**

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

**Proprietary Funds**

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Township's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the Township's major enterprise funds:

Sewer Fund - This fund accounts for fees collected for sewer services provided by the Township.

Water Fund - This fund accounts for fees collected for water services provided by the Township.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. These funds are used to account for assets held in trust or as an agent for others. The Charter Township of AuSable uses these funds to account for current tax collections and deposits held for water affidavits.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and liabilities associated with the operations of the Township are included on the statement of net assets.

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the Township finances and meets the cash flow needs of its enterprise activities.

F. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and enterprise fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary funds and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Township, available means expected to be received within 60 days of the fiscal year-end.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Basis of Accounting (Continued)

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Township must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On the modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax), grants, interest, and rent.

Deferred Revenues:

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at December 31, 2004, but were levied to finance 2005 operations, have been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

**Expenses/Expenditures**

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

G. Budgets and Budgetary Accounting

The Township normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township Clerk submits to the Township Board a proposed operating budget which includes proposed expenditures and the means of financing them.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgets and Budgetary Accounting (Continued)

2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Township Board. The Township adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the Township are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the functional level.

The legal level of control is at the functional level for the General Fund and the Special Revenue Funds.

Revisions that alter the total expenditures of any fund or total department expenditures must be approved by the Township Board. The financial statements include budgetary amounts as amended.

H. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Township are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

I. Receivables

Receivables at December 31, 2004, consist of accounts (fees), taxes and special assessments. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

J. Interfund Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances". Balances due from/to fiduciary funds are also reported on the government-wide statement of net assets.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Inventories

Inventory is recorded in the Water Fund at the lower of cost or market, with cost determined on a first-in, first-out basis. All purchases for materials are reflected in expenses when paid in the other funds.

L. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Township's infrastructure consists of water and sewer lines. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	25 - 50 years
Land Improvements	11 - 20 years
Machinery and Equipment	5 - 10 years
Infrastructure /Utility Systems	20 - 50 years

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from the governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Township's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Restricted Assets

Restricted assets are those assets required to meet the covenants and conditions of bond indentures.

P. Restricted Net Assets

Restricted net assets represent amounts in the water and sewer funds required for maturing interest and principal on bonds and replacement and improvement funds as established by Ordinance No. 22 and cash held by the Oscoda-AuSable Utility Authority for additional sewer construction.

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Township, these revenues are charges for services for water and sewer usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

S. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004NOTE 2- CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITYA. Change in Accounting Principles

For 2004, the Township has implemented Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; Number 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Omnibus," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statement No. 34 creates new basic financial statements for reporting on the Township's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type. The government-wide financial statements split the Township's programs between governmental activities and business-type activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2004 caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

B. Restatement of Fund Equity

The restatement due to the implementation of the above statements and interpretation had the following effects on fund equity of the major Enterprise funds of the Township as it was previously reported.

	<u>Sewer Fund</u>	<u>Water Fund</u>
Retained Earnings December 31,2003	\$ 785,311	\$ 689,442
Restatement of contributed capital in accordance with GASB Statement No. 33	1,037,800	1,420,162
Adjustments to investments in other entities to reflect payments reported as expenses in prior years as a result of the adoption of GASB Statement No. 34 (including accrued interest set up at December 31,2003.)	<u>0</u>	<u>694,535</u>
Restated Net Assets – December 31,2003	<u>\$ 1,823,111</u>	<u>\$ 2,804,139</u>



CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
<u>Current Assets</u>				
Cash and Cash Equivalents	\$ 337,788	\$ 1,028,617	\$ 1,006,051	\$ 2,372,456
Investments	<u>0</u>	<u>304,441</u>	<u>0</u>	<u>304,441</u>
Total Current Assets	337,788	1,333,058	1,006,051	2,676,897
<u>Restricted Assets</u>				
Cash and Cash Equivalents	<u>0</u>	<u>125,089</u>	<u>0</u>	<u>125,089</u>
	<u>\$ 337,788</u>	<u>\$ 1,458,147</u>	<u>\$ 1,006,051</u>	<u>\$ 2,801,986</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 826,501
Investments in Municipal Investment Account	1,975,260
Pooled Funds and Similar Vehicles	
Petty Cash and Cash on Hand	<u>225</u>
Total	<u>\$ 2,801,986</u>

Deposits:

Deposits are carried at cost. Deposits of the Township are held at various banks in the name of the Township. At December 31, 2004, the carrying amounts of the Township's deposits were classified to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 300,000	\$ 300,000
Uninsured – uncollateralized	<u>526,501</u>	<u>502,261</u>
Total primary government	<u>\$ 826,501</u>	<u>\$ 802,261</u>

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments:

The Township Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorize s the Township to deposit and invest in the following:

- \* Accounts of federally insured banks, credit unions and savings and loan associations
- \* Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- \* United States government or federal agency obligation repurchase agreements
- \* Banker's acceptances of United States banks
- \* Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- \* Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Township's deposits and investments are in accordance with statutory authority.

The Township's investments are categorized to give an indication of the level of risk assumed by the Township at December 31, 2004. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

All investments at December 31, 2004 consisted of the following which are not required to be categorized:

	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Primary Government</u>		
<u>Nonrisk Categorized</u>		
Municipal Investment Account		
Pooled Funds and Similar Vehicles	<u>\$ 1,975,260</u>	<u>\$ 1,975,260</u>

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004NOTE 4 - PROPERTY TAXES

Property taxes become an enforceable lien on property as of December 1. Taxes are levied on December 1, and are payable by February 28. Township taxes levied December 1 are considered revenue for the subsequent year; therefore, taxes receivable in the governmental funds have been offset by deferred revenue. Real and personal property for the December 1, 2004 levy had a taxable value of \$82,996,970 and equalized at \$110,082,750, representing 50% of estimated current market value. The 2004 operating tax rates are currently 4.6678 mills for operating and 1.2000 mills for fire protection.

NOTE 5 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY

The amounts of interfund receivables and payables as of December 31, 2004 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 22,341	\$ 7,542
Fire Fund	88	13
Total Major Governmental Funds	<u>22,429</u>	<u>7,555</u>
Non-major Governmental Funds	<u>3,235</u>	<u>0</u>
Major Enterprise Fund:		
Sewer Fund	100,803	22,193
Water Fund	<u>24,419</u>	<u>115,138</u>
Total Major Enterprise Funds	<u>125,222</u>	<u>137,331</u>
Fiduciary Funds	<u>14</u>	<u>6,014</u>
	<u>\$ 150,900</u>	<u>\$ 150,900</u>

The amounts of interfund receivables and payables for the primary government as of December 31, 2004 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 200	Trust and Agency Fund	\$ 200
General Fund	4,440	Tax Account Fund	4,440
General Fund	13	Fire Fund	13
General Fund	3,353	Sewer Fund	3,353
General Fund	14,335	Water Fund	14,335
Fire Fund	88	Tax Account Fund	88
Street Lighting Fund	3,235	General Fund	3,235
Sewer Fund	100,803	Water Fund	100,803
Water Fund	4,293	General Fund	4,293
Water Fund	18,840	Sewer Fund	18,840
Water Fund	86	Tax Account Fund	86
Water Fund	1,200	Trust and Agency Fund	1,200
Tax Fund	<u>14</u>	General Fund	<u>14</u>
Totals	<u>\$ 150,900</u>		<u>\$ 150,900</u>

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004NOTE 6 - PENSION

The Township has adopted a defined contribution pension plan covering all full-time employees.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date, are at least age 18 but not more than age 75.

The Township's contribution is based on annual compensation and seven different classes. The employees also have the option to contribute up to 10% of their wages.

During the year, the Township's required and actual contributions amounted to \$10,788.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township.

NOTE 7 - UNEMPLOYMENT COMPENSATION

The Township is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Township must reimburse the Employment Agency for all benefits charged against the Township. All liabilities incurred have been accrued in the financial statements as of December 31, 2004.

NOTE 8 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	\$ 84,065	\$ 0	\$ 0	\$ 84,065
Machinery and Equipment	<u>6,000</u>	<u>0</u>	<u>0</u>	<u>6,000</u>
Subtotal	<u>90,065</u>	<u>0</u>	<u>0</u>	<u>90,065</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	39,006	1,352	0	40,358
Machinery and Equipment	<u>6,000</u>	<u>0</u>	<u>0</u>	<u>6,000</u>
Subtotal	<u>45,006</u>	<u>1,352</u>	<u>0</u>	<u>46,358</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 45,059</u>	<u>\$ 1,352</u>	<u>\$ 0</u>	<u>\$ 43,707</u>

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004

NOTE 8 - CAPITAL ASSETS (CONTINUED)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increase s</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 8,274	\$ 0	\$ 0	\$ 8,274
Capital Assets Being Depreciated:				
Land Improvem ent	5,460	0	0	5,460
Buildings	33,664	0	0	33,664
Plant and Equipment:				
Distribution and Collection Systems	3,948,564	13,449	0	3,962,013
Machinery, Equipment and Signs	7,310	0	0	7,310
Subtotal	<u>3,994,998</u>	<u>13,449</u>	<u>0</u>	<u>4,008,447</u>
Less Accumulated Depreciation for:				
Land Improvement	1,517	364	0	1,881
Buildings	2,861	673	0	3,534
Plant and Equipment:				
Distributio n and Collection Systems	1,385,569	117,645	0	1,503,214
Machinery, Equipment and Signs	1,625	815	0	2,440
Subtotal	<u>1,391,572</u>	<u>119,497</u>	<u>0</u>	<u>1,511,069</u>
Net Capital Assets Being Depreciated	<u>2,603,426</u>	<u>(106,048)</u>	<u>0</u>	<u>2,497,378</u>
Business-Type Activities Total Capital Assets - Net of Depreciation	<u>\$ 2,611,700</u>	<u>\$ (106,048)</u>	<u>\$ 0</u>	<u>\$ 2,505,652</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities :	
Recreation and cultural	<u>\$ 1,352</u>
Business-Type Activities :	
Sewer	\$ 39,180
Water	<u>80,317</u>
Total Business-Type Activities	<u>\$ 119,497</u>

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004

NOTE 9 - LONG-TERM DEBT

At December 31, long-term debt consists of the following individual issues:

Primary government:

Business -Type

A. Contracts Payable:

Joint water supply system agreement with the City of East Tawas, the City of Tawas City, the Charter Township of Oscoda, and the Township of Baldwin through the Huron Shore Regional Utility Authority, dated May 1, 1996, due in annual installments through November 1, 2010, bearing interest at the rates of 4% to 5.65% to finance the cost of constructing a new water supply system. The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the Township's share is 17.11% of the total bond issue of \$7,930,000 or \$1,356,823.

\$ 587,728

Joint water supply system agreement with the City of Tawas City, the Charter Township of Oscoda, and the Township of Baldwin to finance the cost of constructing additions, extensions, improvements and related appurtenances to Sewer System No. 1 of the Huron Shores Regional Utility Authority, dated November 1, 1995, due in annual installments through May 1, 2015, bearing interest at the rates of 4.4% to 5.625%. The construction was originally funded with the proceeds of the Limited Tax General Obligation Bonds dated November 5, 1995. The most current estimate of the Township's share is 20.31% of the total bond issue of \$1,300,000 or \$264,030.

213,256  
800,984

B. General Obligation Bonds Payable:

\$875,000 Limited Tax General Obligation Water Supply System bonds, dated September 26, 1975 used for the purpose of constructing additions to the Township of AuSable water system. The bonds bear interest at 5% and are due in annual installments through 2015.

220,000

\$70,000 Limited Tax General Obligation Water Supply System bonds, dated April 26, 1978 used for the purpose of constructing additions to the Township of AuSable water system. The bonds bear interest at 5% and are due in annual installments through 2017.

26,000  
246,000

Total Primary Government

\$ 1,046,984

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004NOTE 9 - LONG-TERM DEBT (CONTINUED)C. Changes in Long Term Liabilities

	<u>Balance</u> <u>January 1, 2004</u>	<u>Issues of</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>December 31, 2004</u>	<u>Due Within</u> <u>One Year</u>
<u>Business-Type Activities</u>					
Primary Government:					
Contracts payable	\$ 918,060	\$ 0	\$ 117,076	\$ 800,984	\$ 112,760
General obligation bonds	268,000	0	22,000	246,000	20,000
Notes payable	<u>16,976</u>	<u>0</u>	<u>16,976</u>	<u>0</u>	<u>0</u>
Total primary government	<u>\$ 1,203,036</u>	<u>\$ 0</u>	<u>\$ 156,052</u>	<u>\$ 1,046,984</u>	<u>\$ 132,760</u>

The annual aggregate maturities for all debt outstanding as of December 31, 2004 are as follows:

Contracts Payable

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 112,760	\$ 42,974	\$ 155,734
2006	116,182	37,245	153,427
2007	114,471	31,186	145,657
2008	112,760	25,053	137,813
2009	111,905	18,903	130,808
2010 - 2014	207,518	29,523	237,041
2015	<u>25,388</u>	<u>714</u>	<u>26,102</u>
	<u>\$ 800,984</u>	<u>\$ 185,598</u>	<u>\$ 986,582</u>

General Obligation Bonds

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 20,000	\$ 11,150	\$ 31,150
2006	22,000	10,750	32,750
2007	22,000	9,650	31,650
2008	22,000	8,550	30,550
2009	22,000	7,450	29,450
2010 - 2014	110,000	20,750	130,750
2015 - 2017	<u>28,000</u>	<u>1,150</u>	<u>29,150</u>
	<u>\$ 246,000</u>	<u>\$ 69,450</u>	<u>\$ 315,450</u>

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004NOTE 10 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted to the functional level.

During the year ended December 31, 2004, the Township incurred expenditures in the General Fund which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Operating transfers out	\$ 216,350	\$ 219,562	\$ 3,212

NOTE 11 - OPERATING TRANSFERS

During 2004, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 0	\$ 219,562
Police Fund	<u>181,852</u>	<u>0</u>
Total Major Funds	181,852	219,562
Non-major Governmental Funds	<u>37,710</u>	<u>0</u>
	<u>\$ 219,562</u>	<u>\$ 219,562</u>

During 2004, the following individual fund transfers were made:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
Police Fund	\$ 181,852	General Fund	\$ 181,852
Street Lighting Fund	<u>37,710</u>	General Fund	<u>37,710</u>
Total	<u>\$ 219,562</u>	Total	<u>\$ 219,562</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.



CHARTER TOWNSHIP OF AUSABLE  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004NOTE 12 - SEGMENT INFORMATION OF ENTERPRISE FUNDS

The Township maintains Enterprise Funds. Segment information for the year ended December 31, 2004 is as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total Enterprise Fund</u>
Operating revenue	\$ 101,102	\$ 509,497	\$ 610,599
Depreciation expense	\$ 39,180	\$ 80,317	\$ 119,497
Operating income (loss)	\$ (29,872)	\$ 119,087	\$ 89,215
Change in net assets	\$ (25,080)	\$ 77,128	\$ 52,048
Property, plant and equipment:			
Additions	\$ 0	\$ 13,449	\$ 13,449
Net working capital	\$ 743,369	\$ 512,144	\$ 1,255,513
Contracts payable	\$ 0	\$ 800,984	\$ 800,984
General obligation bonds payable	\$ 0	\$ 246,000	\$ 246,000
Net Assets	\$ 1,798,031	\$ 2,881,267	\$ 4,679,298

NOTE 13 - RESTRICTED ASSETS AND RESERVES

The Township is required under Ordinance #22 of the Iosco County Water Supply System Bonds to maintain certain restricted assets in the Water Fund. The ordinance provides that a "Contract Payment Fund" (restricted cash account) be established with quarterly deposits in amounts as shall be necessary to pay the contractual obligations when due. At December 31, 2004, the Township had a balance of \$92,318.

Township Ordinance #22 also required that a "General Purpose Account" (restricted cash account) be established for repairing or replacing any damage to the system which may be caused by an unforeseen catastrophe, for making extensions or improvements to the system or, when necessary, for the purpose of making payments of the contractual obligations if the amount in the "Contract Payment Fund" is not sufficient to meet such payments. The balance of said account need not exceed the sum of \$25,000. At December 31, 2004, the Township had a balance of \$15,112.

NOTE 14 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 15 - DEFERRED COMPENSATION PLAN

The Township offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Township for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Township's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL FUND  
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Current property taxes	\$ 371,800	\$ 371,800	\$ 394,585	\$ 22,785
State grants and revenue	170,000	170,000	172,134	2,134
Charges for services	1,902	1,902	370	(1,532)
Licenses and permits	22,446	22,446	4,366	(18,080)
Interest and rentals	4,000	4,000	4,395	395
Other revenue	14,652	14,652	2,850	(11,802)
Total revenue	<u>584,800</u>	<u>584,800</u>	<u>578,700</u>	<u>(6,100)</u>
<u>Expenditures</u>				
General government				
Township board	19,090	22,290	20,223	2,067
Supervisor	33,190	33,190	29,426	3,764
Superintendent	0	5,295	4,532	763
Elections	1,950	1,950	1,281	669
Assessor	42,705	42,705	41,695	1,010
Legal and audit	21,250	21,250	18,135	3,115
Board of review	2,050	2,050	1,241	809
Clerk	36,655	36,255	30,912	5,343
Treasurer	39,310	42,980	40,358	2,622
Buildings and grounds	34,790	34,840	26,110	8,730
Cemetery	15,613	15,613	15,613	0
Public works				
Highways, streets and bridges	35,000	47,920	36,216	11,704
Community and economic development				
Planning commission	38,085	54,085	37,100	16,985
Economic development	12,000	12,050	6,045	6,005
Recreation and cultural				
Library	19,522	19,522	19,522	0
Recreation and Parks	18,230	21,285	17,023	4,262
Total expenditures	<u>369,440</u>	<u>413,280</u>	<u>345,432</u>	<u>67,848</u>
Excess of revenue over expenditures	215,360	171,520	233,268	61,748
Other Financing Uses:				
Operating transfers out	<u>(216,000)</u>	<u>(216,350)</u>	<u>(219,562)</u>	<u>(3,212)</u>
Excess of revenue over (under) expenditures and other uses	(640)	(44,830)	13,706	58,536
Fund balances - beginning of year	<u>311,705</u>	<u>311,705</u>	<u>311,705</u>	<u>0</u>
Fund balances - end of year	<u>\$ 311,065</u>	<u>\$ 266,875</u>	<u>\$ 325,411</u>	<u>\$ 58,536</u>

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 FIRE FUND - SPECIAL REVENUE FUND  
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Current property taxes	\$ 51,780	\$ 51,780	\$ 51,935	\$ 155
Interest	400	400	241	(159)
Total revenue	<u>52,180</u>	<u>52,180</u>	<u>52,176</u>	<u>(4)</u>
<u>Expenditures</u>				
Current:				
Public safety	<u>89,921</u>	<u>89,921</u>	<u>84,940</u>	<u>4,981</u>
Excess of revenue over (under) expenditures	(37,741)	(37,741)	(32,764)	4,977
Fund balances - beginning of year	<u>39,599</u>	<u>39,599</u>	<u>39,599</u>	<u>0</u>
Fund balances - end of year	<u>\$ 1,858</u>	<u>\$ 1,858</u>	<u>\$ 6,835</u>	<u>\$ 4,977</u>

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 POLICE FUND - SPECIAL REVENUE FUND  
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
State grants and revenue	\$ 3,400	\$ 3,400	\$ 3,511	\$ 111
Interest	50	50	49	(1)
Total revenue	<u>3,450</u>	<u>3,450</u>	<u>3,560</u>	<u>110</u>
<u>Expenditures</u>				
Current:				
Public safety	<u>181,852</u>	<u>181,852</u>	<u>181,852</u>	<u>0</u>
Excess of revenue over (under) expenditures	(178,402)	(178,402)	(178,292)	110
Other Financing Sources:				
Operating transfers in	<u>175,000</u>	<u>175,000</u>	<u>181,852</u>	<u>6,852</u>
Excess of revenue and other sources over (under) expenditures	(3,402)	(3,402)	3,560	6,962
Fund balances - beginning of year	<u>12,714</u>	<u>12,714</u>	<u>12,714</u>	<u>0</u>
Fund balances - end of year	<u>\$ 9,312</u>	<u>\$ 9,312</u>	<u>\$ 16,274</u>	<u>\$ 6,962</u>

#### OTHER INFORMATION

CHARTER TOWNSHIP OF AUSABLE  
Iosco County, Michigan

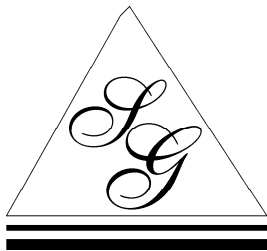
WATER FUND  
SUPPLEMENTAL INFORMATION FOR GMAC COMMERCIAL MORTGAGE  
For the Year Ended December 31, 2004

1. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America.
2. An evaluation of the system of internal control is included in the financial statements.
3. The accounting records maintained by the Township for the Water Fund are satisfactory and we have no major recommendations for improvement.
4. The Township's physical control of the assets is satisfactory.
5. The Charter Township of AuSable has complied with the loan agreement, including the maintenance of cash reserves.
6. The financial reports included in this audit are in agreement with the accounting records of the Township and no major or unusual adjustments were necessary.
7. Deposits of the Water Fund are in financial institutions insured by the federal government.
8. The Charter Township of AuSable is exempt from federal income tax.
9. No unsatisfactory conditions were noted during the audit.
10. An aging of accounts receivable as of December 31, 2004 is as follows:

<u>Days</u>	<u>Amount</u>
0 - 30	\$ 35,907
31 - 90	<u>6,448</u>
Total	<u><u>\$ 42,355</u></u>

11. The types of insurance coverage pertaining to the Water Fund as of December 31, 2004 are as follows:

<u>Type of Coverage</u>	<u>Policy Number</u>	<u>Amount of Coverage</u>	<u>Policy Expiration Date</u>
Property	MTP-191774	\$ 760,947	9/29/05
Liability	MTP-191774	4,000,000	9/29/05
Wrongful Acts	MTP-191774	3,000,000	9/29/05
Automobile	MTP-191774	2,000,000	9/29/05
Crime	MTP-191774	10,000	9/29/05
Inland marine	MTP-191774	88,000	9/29/05
Boiler	MTP-191774	100,000	9/29/05
Workers compensation	WCV 0005609 02	600,000	10/01/05



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

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Herman A Bertuleit, CPA

March 16, 2005

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Township Board  
Charter Township of AuSable  
Iosco County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of AuSable as of and for the year ended December 31, 2004, which collectively comprise the Charter Township of AuSable's basic financial statements and have issued our report thereon dated March 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Charter Township of AuSable's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated March 16, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Charter Township of AuSable's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Charter Township of AuSable's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below:

Bank Reconciliations

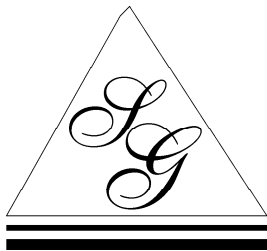
Two of the Water Fund's bank accounts are not being reconciled on a timely basis. We recommend that all bank accounts be reconciled monthly on a timely basis to improve internal controls over cash transactions.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management, the Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*





# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

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-----  
Herman A Bertuleit, CPA

March 16, 2005

Members of the Township Board  
Charter Township of AuSable  
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the Charter Township of AuSable for the year ended December 31, 2004, and have issued our report thereon dated March 16, 2005. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated August 27, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Charter Township of AuSable's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Charter Township of AuSable's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

## Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Charter Township of AuSable are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the Township changed accounting policies as a result of adopting Statement of Governmental Accounting Standards (GASB Statements) No. 33, 34, 36, 37 and 38, in the year ended December 31, 2004. We noted no transactions entered into by the Charter Township of AuSable during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Charter Township of AuSable's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Charter Township of AuSable, either individually or in the aggregate, indicate matters that could have a significant effect on the Charter Township of AuSable's financial reporting process.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Charter Township of AuSable's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

#### Additional Information

As a result of our tests of compliance as described in the fourth paragraph, certain matters came to our attention upon which we would like to comment and offer the following recommendations:

#### Budget Control

We noted that the Township's General Fund included expenditures in one function that exceeded the appropriated amount. We recommend that the Township Board continue to amend the budgets for all funds as needed.

#### Bank Reconciliations

During the test work, we noted two of the Water Fund's bank accounts are not being reconciled on a timely basis. We recommend that all bank accounts be reconciled monthly on a timely basis to improve internal controls over cash transactions.

#### Cash Disbursement System

During our test work, we noted several checks written in January of 2005 backdated to December of 2004 in the tax collection account. The checks were backdated so that they would show up in December of 2004's disbursements. This practice is not good cash management. We recommend that these transactions in the future be dated in the period that they are written.

#### Tax Collection Account

During our test work, we noted the tax collection account received material collections back in June 2004 for delinquent taxes that were not paid out to the respective units as of December 31, 2004. We recommend that all tax collections be disbursed in a timely manner in accordance with the Michigan Township Association payout schedule.

#### Payroll Withholdings and Reports

During our test work, we noted that in the fourth quarter of 2004 Social Security taxes were improperly withheld from employees that were covered by the Township's pension plan. We recommend that the Township exclude social security withholding on all employees that are covered by the Township's pension plan.

The fourth quarter 941 form did not include all Township wages. We recommend that the Township amend the fourth quarter payroll tax form and include all Township wages on future 941 reports.

Members of the Township Board  
Charter Township of AuSable  
March 16, 2005  
Page Three

State income tax withholding for November and December of 2004 was not paid to the State of Michigan as of March 16, 2005. We recommend that the Township pay the delinquent withholdings as soon as possible and to pay all payroll tax liabilities before their due dates to avoid future penalties and interest charges.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Township.

This information is intended solely for the use of management, the Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grunh & Co., P.C.*